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Agriculture in US Foreign Economic Policy May 1989

Background: US agricultural exports make an important contribution to US foreign policy objectives. One priority of our policy is to work toward a more open, equitable trading environment, which should result in improved export opportunities for US agricultural products. Another priority is greater cooperation in food aid, food security, and agricultural economic development in developing countries. The US participates in international efforts to address global food issues and is a member of the UN Food and Agriculture Organization, the World Food Program, and the International Fund for Agricultural Development. It also belongs to the following commodity organizations: International Coffee Organization, International Sugar Organization, International Cotton Advisory Committee, International Institute for Cotton, and the International Wheat Council.

US agricultural trade: Agricultural products accounted for about 12% of US exports and earned $35.3 billion in fiscal year 1988, compared to 19% and $44 billion in 1981, a peak year. Although the US is still the major exporter of coarse grains and soybeans, and one of the largest suppliers of wheat, cotton, meat, and horticultural products, the US position has been eroding because of increased competition, primarily from the European Community and several developing countries. Nevertheless, agriculture is one of the few sectors where the US consistently registers a trade surplus.

The US is an important market for agricultural products from around the world. US imports increased from $17 billion in fiscal year 1981 to $21 billion in fiscal year 1988. Coffee is the single largest import.

Problems in agriculture: The volume of world trade in agriculture has been declining in the 1980s. Government policies and support programs have cushioned agricultural producers from the need to adjust to market changes caused by improved technology and slower growth in demand. The result has been chronic surpluses and huge government expenditures to support agriculture. Unfortunately, in many cases the programs do not target the neediest farmers. In 1981, the US spent $4 billion on farm programs; by 1986, the figure had jumped to $26 billion, before falling to $22.4 billion in 1987. World prices for most major crops rose in 1988 because of the drought and caused US spending on foreign programs to drop sharply to $12.5 billion. Without a change in agricultural policies, however, the problems caused by oversupply and low prices are likely to reemerge.

Agricultural trade policy: The Administration has placed a high priority on resolving agricultural problems at the multilateral and bilateral levels. The US was instrumental in getting agriculture put on the agenda for the Uruguay Round of multilateral trade negotiations that began in September 1986. Believing that comprehensive and expeditious negotiations are the best way to tackle the global problem in agricultural trade, the Administration is encouraging other

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governments to join us in making agricultural reform a priority. In April 1989 the US and its Uruguay Round trading partners successfully concluded a framework agreement on agriculture that specifies the objectives and timetable for the multilateral agriculture negotiations. The US also is working in the Organization for Economic Cooperation and Development to develop a consensus on the urgent need for agricultural reform.

On the bilateral side, the main thrust of Administration efforts is to maintain and improve market access for US products. Bilateral negotiations or other dispute settlement procedures are normally in progress on a variety of agricultural commodities at any given time. For wheat and certain other commodities, the US selectively provides export subsidies through the Export Enhancement Program to compete with subsidized agricultural exports of other countries.

Promotion programs: Specific trade promotion programs are an important mechanism to increase agricultural exports. The Department of State fully supports these programs, and they are a major objective of US embassies overseas.

- Commodity Credit Corporation (CCC) credits and credit guarantees have received broad acceptance. In fiscal year 1988, US agricultural sales were assisted by CCC credits and guarantees totaling more than $4.5 billion. Mexico, Iraq, Brazil, Korea, and Portugal together account for more than half this amount.

- PL 480 (Food for Peace) aid has proved to be a long-term market development tool as well as a means of meeting economic development and other foreign policy goals. A number of countries including Brazil, Korea, Turkey, Spain, and Yugoslavia have "graduated" from the PL 480 program to become large commercial customers for products formerly provided on concessional credit.

- One of the most successful agricultural export promotion efforts is the US Department of Agriculture's (USDA) Cooperator Market Development Program, which joins more than 50 nonprofit agricultural commodity associations with USDA's Foreign Agricultural Service in market development activities throughout the world. The program enables the US Government and private industry to pool resources so that each gets more mileage out of such activities.

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